

*Senate Budget and Fiscal Review—Denise Moreno Ducheny, Chair*  
**SUBCOMMITTEE NO. 1 on Education**



**Subcommittee No. 1**  
**Chair, Gloria Romero**  
**Member, Bob Huff**  
**Member, Carol Liu**

**Thursday, May 14 2009**

**Upon Adjournment of Senate Governmental Organization Committee**

**State Capitol, Room 3191**

**PART A – HIGHER EDUCATION**

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## **I. Decentralization of Cal Grant Programs**

As part of his 2009-10 Budget, the Governor proposed decentralizing financial aid programs administered by the California Student Aid Commission (CSAC) and granting authority to the public higher education segments to administer the programs directly. Specifically, the University of California (UC), the California State University (CSU) and the California Community Colleges (CCC) would administer Cal Grant entitlement awards for students attending the respective institutions. The Chancellor's Office of the CCC would administer competitive awards for students at all segments and entitlement awards for students attending private institutions.

As part of the 2009-10 Budget Act adopted by the Legislature in February 2009, the monetary savings and statutory changes associated with this proposal were removed from the Budget Act "without prejudice". Thus, the subcommittee is now considering the proposal in its original form. The Governor estimates that decentralizing Cal Grants – coupled with consolidating the operations of the CSAC and California Postsecondary Education Commission (CPEC) – will result in monetary savings of \$2 million in the first year and approximately \$4 million annually thereafter. While these savings are minimal, the potential for increased student access and service warrants further discussion of the proposal.

### **A. Background.**

The California Student Aid Commission (CSAC) administers a variety of student financial aid grant and loan programs, including several different Cal Grant programs. Cal Grants provide for tuition and fees up a maximum of \$9,708 per year (for students attending private institutions) for four years. An additional annual stipend of \$1,551 is available for Cal Grant B recipients. The Cal Grant programs provide awards to needy and academically eligible students and include:

- 1) Cal Grant A & B 'entitlement' programs for graduating high school seniors and recent graduates.
- 2) Cal Grant A & B 'competitive' programs for students who begin college more than a year after graduating from high school.
- 3) Cal Grant C for students attending occupational or vocational programs of at least four months in duration.

For 2008-09, an estimated 277,000 Cal Grant new and renewal awards were offered to students. For 2008-09, CSAC estimates that the General Fund will provide approximately \$880 million in support for the Cal Grant programs.

The Governor's proposal does not mark the first time the issue of decentralizing state financial aid programs has come before the Legislature. In 2002, the Legislature adopted supplemental report language in the Budget Act directing the CPEC to convene a task force to examine alternative delivery systems for the state's Cal Grant programs. CPEC submitted

a report on the task force's recommendations in 2003. Among the main recommendations from the task force were:

- The state should undertake a transition toward a campus-based, decentralized model for the delivery of Cal Grant awards, one that is more consistent with the federal student aid delivery system.
- CSAC should convene a task force to develop a new definition of and methodology for calculating the Cal Grant high school grade point average that is more commonly available from high schools and more readily used by colleges.
- The state needs to obtain complete and accurate information concerning the true costs of both the current Cal Grant delivery system as well as implementing the alternative decentralized model recommended.

Following submission of the report in 2003, Assembly Bill 1323 (Jackson), was introduced to implement the recommendations. The Assembly Higher Education Committee passed the bill unanimously, but the bill failed passage in the Assembly Appropriations Committee.

## **II. Discussion**

With the exception of the CSAC, the concept of decentralizing Cal Grants has been universally embraced by the higher education systems.

CSAC believes that the decentralization proposal (A) fails to demonstrate how students benefit from a one-stop shop system of financial aid; (B) will adversely impact low-income and underrepresented students; and (C) will not save money.

**A.** The following arguments are offered by the Legislative Analyst, illustrating how students may benefit from a one-stop financial aid "shop":

### ***Current Process Is Fragmented.***

From the student's perspective, the current financial aid process is fragmented and often confusing. Students may have to submit information to the CSAC office in addition to their campus financial aid office. They receive correspondence from CSAC, which sometimes duplicates information they have already received from the campus office, and sometimes contradicts it, when the campus communication is based on new information. In addition, a student's contact with the local financial aid office is usually face-to-face, with an individual counselor, whereas communication with CSAC is through a web application, mail, e-mail, or call center.

### ***Campuses Already Provide Most Financial Aid.***

Most student financial aid is awarded to students through campus financial aid offices based on a common, web-based application form (the Free Application for Federal Student Aid, or FAFSA). The federal Department of Education uses information from

the FAFSA (including family income and assets, and number of children in college) to determine the expected family contribution (EFC). Campus financial aid officers use the EFC, in conjunction with information about the costs of attending their institutions—including books and living expenses—to determine each student’s financial need. They then “package” various types of financial aid to meet as much of the financial need as possible. Campus financial aid officers make awards for most categories of need-based gift aid. They award Pell grants based on federal eligibility criteria, and invoice the federal government for just-in-time payment through electronic funds transfer. They award institutional funds, following campus or system policies and guidelines. The main exception is Cal Grants. Financial aid officers can estimate the amount of funding students are likely to receive from the Cal Grant entitlement program, but they are not authorized to approve the awards, thus making it difficult for them to provide students with a comprehensive financial aid package. Staff notes that, shifting students from a statewide program to one that is campus-based may serve to alleviate student "sticker shock" by allowing campus financial aid officers to present a complete financial aid package to students upon admission.

**B.** The California Education Round Table (which represents all segments of higher education) offers the following argument in response to CSAC's concern that the proposal puts low-income and disadvantaged students at risk:

The higher education institutions in fact believe that these populations of students will *benefit* from a campus-based financial aid system. Specifically, under a decentralized model, students and families who traditionally have less experience navigating bureaucratic systems, would be provided a single, direct link to financial aid information. Further, allowing campuses to notify students of admission decisions and *full* financial aid information as early as January, means that students will have a complete financial aid package upon which to assess their enrollment decisions.

**C.** The following comments are offered by both the Legislative Analyst and the California Education Roundtable in response to CSAC's assertion that the proposal will not save any money:

***Annual Savings Estimated at \$2 Million.***

The decentralization component of the restructuring proposal accounts for about half the savings anticipated by the administration. The Department of Finance (DOF) estimates that approximately 20 CSAC employees are performing tasks that are largely duplicative of work performed in higher education campus financial aid offices. Eliminating these positions, and another 10 support positions (such as accounting, personnel and business services), would save an estimated \$2 million annually.

***Cost Savings Associated with Decentralization Unclear.***

Campus financial aid offices are already performing most of the tasks required to identify eligible students and make grant awards. They have systems in place to estimate Cal Grant eligibility as part of their financial aid packaging. They are also responsible for

verifying student eligibility before disbursing grants. In some areas, decentralization will reduce the workload of financial aid offices and reduce administration costs. From the campuses' perspective, the Cal Grant award process is duplicative and labor-intensive, and often creates additional work for financial aid counselors to resolve conflicting information. Thus, by reducing redundancy, decentralization of Cal Grants may result in monetary savings.

However, there are some tasks that could create new costs for the campuses. Currently, CSAC collects verification of GPA and high school graduation centrally. Many high schools transmit the required data electronically for all students. Some, however, do not have the capacity to transmit the data, and must provide it manually or leave it up to students to submit. Students are ultimately responsible for ensuring that their information is submitted. The CSAC keeps track of submissions, and notifies students of missing or incomplete information. Most campus financial aid offices (and segment offices) do not have systems in place to assume tracking of these data, and developing the systems could be costly.

***Options to Avoid the Higher Costs.***

Part of the reason it may be costly to develop these systems is that the Cal Grant requirements do not match those for other financial aid or academic programs. The LAO offers the following recommendations for achieving cost savings:

- Aligning the statutory requirements of the Cal Grant program with similar requirements for federal financial aid programs. For example, the state could eliminate the use of income and asset ceilings to determine eligibility, and instead use the federal needs methodology.
- Eliminating some of the Cal Grant requirements. For example, there is no added value in GPA verification for students attending UC, where the minimum GPA for admission (3.0) matches or exceeds the minimum GPA for Cal Grant eligibility (2.0 to 3.0, depending on the program). Likewise, Cal Grant eligibility criteria include income and asset ceilings, while most programs rely instead on the more comprehensive federal need analysis.
- Leaving some centralized functions at the state level (whether or not the Legislature consolidates CSAC with CPEC).

### **III. Implementation Challenges.**

Staff notes that, despite the above-noted arguments in favor of decentralization, the Administration's proposal is not without implementation challenges.

#### **A. Community College GPA**

Specifically, under the Governor's proposal, community colleges would be required to assess eligibility, even though there is no requirement for students to submit high school transcripts. Thus, local colleges will have no basis for fully determining student eligibility in the absence of a verified grade point average (GPA). This issue only applies to the CCC's, as all other higher education institutions collect high school GPA information.

#### **B. CCC Chancellor's Office Administration of Specified Program Components.**

As proposed by the Governor, the Community Colleges Chancellor's Office would be responsible for administering the Competitive Cal Grant proposal, as well as dispersing grants to students at private colleges and universities. The administration did not provide a rationale for its proposal to administer competitive and private college grants through the CCC Chancellor's Office, although performing these functions centrally appears to make sense. Performing these two tasks will likely present a challenge for the Community College Chancellor's Office. Furthermore, it remains unclear if "funneling" Cal Grant dollars through the CCC's to private college students is truly necessary to avoid legal issues associated with gifting public funds.

#### **C. Retaining Limited Centralized Functions.**

Some functions would need to remain centralized, presumably at the CSAC or a successor agency. Financial aid functions, such as administering specialized programs and conducting compliance audits, are best suited for a state-level entity. Another important function is tracking remaining eligibility for students. Because Cal Grants are portable, and can be moved from one institution to another, students may use a portion of their eligibility at several different institutions. Currently, CSAC tracks utilization, and campus financial aid offices—as well as grant recipients—can access this information on a web-based system. To maintain portability of Cal Grants and ensure that students do not exceed their maximum utilization periods, it would be important to maintain centralized tracking of utilization and remaining eligibility.

#### **D. Distribution of Cal Grant Dollars to Public Campuses.**

Under the administration's proposal, Cal Grant funds would be appropriated to the public higher education segments—and to the CCC Chancellor's Office for private institutions and competitive awards—based on current utilization patterns. (The Director of Finance could transfer unexpended funds among institutions.) While this model could accomplish some of the goals of decentralization, federal Pell Grant distribution model may provide important advantages. In that model, campuses make awards to students directly, and the federal government promptly transfers funds to the campuses based on invoices for approved awards. This process bypasses the system offices, and avoids extensive

payment and reconciliation cycles required under the current Cal Grant model. It would keep General Fund cash in the State Treasury until it is needed, and minimize overpayments and underpayments to the campuses. Another benefit of this model is that it would maintain a clearer distinction between state Cal Grant funds and institutional aid funds. It would also facilitate tracking of individual student utilization and remaining eligibility across institutions. The LAO notes however, that implementation of such a system would likely take a year or more.

### **LAO Recommendation.**

The LAO recommendation mirror several of the recommendations from a 2002 CPEC task force report on decentralization. Specifically, the LAO recommends that the Legislature approve the Governor's proposal to decentralize Cal Grant administration, with some modifications.

- Permit campus financial aid offices to approve Cal Grant entitlement awards for eligible students.
- Establish a just-in-time funding model for Cal Grants parallel to the federal grant distribution model.
- Maintain several functions in CSAC or its successor organization, including tracking of utilization and remaining eligibility, administration of competitive and private college grants, and administration of specialized aid programs. Do not transfer statewide functions unrelated to community college students to the CCC Chancellor's office.
- Consider statutory changes in requirements for Cal Grants to streamline administration of awards while preserving the intent of the financial aid programs. These could include changes to the GPA verification requirement and income and asset ceilings.

### **Action Item - Staff Recommendation.**

Given the benefits to students of a campus-based financial aid system, staff recommends that the subcommittee adopt "placeholder" trailer bill language related to this proposal.

This "placeholder" language is to be based on the Administration's proposal, but take into account the LAO's suggestions related to: (1) using a federal Pell Grant funding model; (2) retaining some core functions at a centralized level; and (3) developing a better system for the administration of competitive Cal Grants and grants to private college students.

## **II. Consolidation of CSAC and CPEC.**

The Governor's proposal would eliminate both the existing CSAC and the existing CPEC and in their place establish (1) a new executive branch department to administer financial aid and outreach programs; and (2) an advisory board, with a composition and appointment process similar to those of the existing CPEC—but it would have no formal powers.

### **A. Establishment of New Executive Branch Higher Education Entity.**

Although there may be some specific concerns about the Governor's reorganization proposal (as noted later in the agenda) , staff notes that it may make sense to move the CSAC's duties into an executive branch department. CSAC's primary responsibility is to administer programs governed by statute. While CSAC also recommends changes to financial aid programs, most of its attention has been focused on program implementation and organizational issues, rather than policy matters. Such implementation of laws is fundamentally a responsibility of the executive branch. Most of CSAC's functions are ministerial and could appropriately be performed in an executive branch department. Further, the LAO notes that eliminating the independent governing board that oversees financial aid administration could resolve longstanding conflicts between it and the board of CSAC's auxiliary organization (EdFUND).

### **B. Establishment of Accompanying Advisory Board.**

The Governor's proposal would transfer CPEC's functions to the new executive branch department described above, under the supervision of the Secretary of Education. An advisory board would provide recommendations to the department director (and to the Governor, Legislature, other governmental officials, and institutions of postsecondary education), but would have no direct authority to perform policy analysis, planning, or coordination of higher education independent from the executive branch. Given that the advisory board would have no formal powers, it would be up to the director, who is answerable to the Governor and not bound by the recommendations of the advisory board, to carry out the department's functions.

In recent years, there have been increasing concerns about CPEC's ability to effectively perform its responsibilities. In a 2003 white paper on this topic commissioned by the Legislature, a working group (convened by the Office of the Legislative Analyst) identified three reasons for this: (1) The scope of CPEC's statutory responsibilities is varied and broad; (2) CPEC's responsibilities are not matched to its resources; and (3) A tension exists between CPEC's coordination/advocacy responsibilities and its role as an independent fiscal and policy watchdog. Other factors, such as the composition of the commission, may also contribute to its underperformance.

Reflecting these concerns, support for CPEC has been declining among policymakers. In 2002-03, Governor Gray Davis' May Revision budget proposal sought to eliminate nearly all funding for CPEC. The Legislature rejected the proposal, but reduced CPEC's funding by one-third. In 2005, the Governor supported the California Performance Review proposal to eliminate CPEC and merge its functions into an executive office. In 2008, Senate

amendments to the proposed budget would have begun a phase-out of the organization over three years.

Recent legislation sought to address some of these concerns. Chapter 514, Statutes of 2008 (SB 361, Scott), directs CPEC to give priority to campus and program reviews and recommendations, implementation of federal programs, and data management responsibilities when all functions and tasks cannot be performed within budgeted resources.

### **C. Challenges.**

#### **Policy Analysis Role Requires Independence.**

An independent governing board is useful when there is a need to protect an agency's work from undue political influence, or when the primary audience for an agency's work products includes both the legislative and executive branches. The CPEC meets both of these conditions. In the LAO's view, the interests of the state are best served when the Governor and Legislature can base their policy decisions on rigorous, unbiased analysis supported by thorough research and accurate data. If higher education policy analysis were conducted in an agency under executive control, the Legislature could reasonably be concerned about partisan or ideological bias. This could intensify existing concerns about the quality of CPEC's work products. Furthermore, if the functions of CSAC and CPEC were consolidated into a single organization, there could be a perceived conflict of interest in at least some of CPEC's analytical work. It is important to note that a policy body in the executive hierarchy would also not be free to critically appraise the administration's budget and policy proposals, further diminishing its usefulness to the Legislature.

#### **Development of an Advisory Board.**

The LAO raises questions related to the advisory board, by specifically asking why a strictly advisory body with no actual authority should be statutorily created. Instead, the LAO finds it would be a better management practice for the director to regularly convene one or more advisory panels representing the higher education segments and other stakeholders for regular consultation about entity activities. If it wishes to ensure that this takes place, the Legislature could require the director to convene and consult with such panels. This could be done without creating a formal advisory board in statute.

#### **Exclusion of Private Postsecondary and Vocational Schools.**

The administration's restructuring proposal does not encompass the regulation of private postsecondary and vocational schools. According to the LAO, the Governor's proposal, provides an opportunity for the Legislature to consider a broader reform that could include this function. Should the Legislature approve a new regulatory framework for these institutions, it may wish to reconsider where best to place the regulatory functions. Currently, the Bureau for Private Postsecondary and Vocational Education (BPPVE) is in the Department of Consumer Affairs, emphasizing the consumer protection aspect of private postsecondary school regulation. The LAO notes that, placing it in a higher

education agency could instead highlight the role of private postsecondary institutions in the state's system of higher education. In addition, there may be some overlap between the audit and data management activities required to regulate private postsecondary schools and similar activities required to monitor implementation of financial aid programs at public and private institutions (including many private postsecondary schools).

### **LAO Recommendation.**

The LAO recommends that the Legislature accept most elements of the Administration's restructuring proposal, as it relates to reconfiguring financial aid administration and oversight into the executive branch.

However, the LAO recommends against create a statutory advisory body. Instead, the LAO would prefer that the director of the new department convene one or more advisory panels representing the higher education segments and other stakeholders for regular consultation about agency activities.

Further, in order to maintain policy independence, the LAO recommends the Legislature reject the portion of the Governor's proposal related to the consolidation of CPEC. The LAO believes that other changes could preserve CPEC's independence and address specific problems and concerns about the agency's performance. Changes in structure and duties, for example, could address previously identified deficiencies.

### **Action Item - Staff Recommendation.**

Staff recommends that the committee adopt "placeholder" trailer bill language based on the Administration's overall consolidation scheme, but continue addressing unresolved issues.

Based on the Administration's proposal, this "placeholder" language will: (1) take into account the LAO's suggestions related to preserving the independence of policy recommendations, (2) attempt to include the BPPVE; (2) examine options for where the new organization is to be housed; and (3) consider expanded membership on the consolidated organization's governing board.

## CONSENT

The following items are proposed for consent:

- 1) Item 6440-496      Capital Outlay, University of California. *Revert funding for San Diego Structural and Materials Engineering Building, per May Finance Letter (Issue 001).*
- 2) Item 6870-497      Capital Outlay, California Community Colleges. *Revert funding for College of the Redwoods Science/Humanities Building, per April Finance Letter (Issue 303).*
- 3) Item 6870-301-6049      Capital Outlay, California Community Colleges. *Appropriate funds for both working drawings and construction phases of College of the Redwoods Science/Humanities Building, per April Finance Letter (Issue 306).*
- 4) Item 7980-001-0001      Support, California Student Aid Commission. *Amend provisional language, per April Finance Letter (Issue 007), to clarify Commission's ability to conduct compliance reviews of specialized grant programs.*